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Toronto, August 10, 1983 - Significant numbers of working Canadians remain in poverty, and their condition may grow worse if the federal and provincial governments fail to work out a more integrated Canada Assistance Plan. Under the present system in many instances these working poor would be better off if they quit their jobs and went on welfare.

This is one of the findings from a policy study for the Ontario Economic Council entitled, Federalism and the Poor: A Review of the Canada Assistance Plan, prepared by Derek Hum, Professor of Economics, St. John's College, University of Manitoba.

The Canada Assistance Plan (CAP) was introduced in 1966 to allow federal cost sharing of provincial expenditures on social assistance (welfare) and social services (other than health and education). The CAP Act is one of the major intergovernmental financial agreements between Canada and the provinces.

Under the present CAP legislation the federal government shares 50 per cent of the cost of assistance payments paid by the provinces to 'persons in need'. The 'basic allowance' defining 'need' varies from province to province (see Table 7), as does the proportion of the population receiving assistance (see Table 8).

Many people are perhaps unaware of the wide range of assistance programs and services covered under the CAP legislation.

What CAP offers now

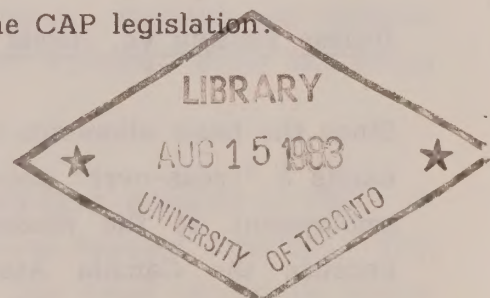
Part I

General Assistance.

Eligibility: needs test

Federal cost-sharing: 50 per cent of all costs.

Coverage: basic requirements (food, shelter, clothing, utilities,



household supplies, and personal requirements); prescribed special needs; care in homes for special care; travel and transportation; funerals and burials; health care services; prescribed welfare services (rehabilitation, casework counselling, assessment, referral, homemaker, and daycare services); comfort allowances and other prescribed needs of residents or patients in hospitals or other prescribed institutions.

Welfare services.

Eligibility: needs test or likelihood of need if services not provided.

Federal cost-sharing: 50 per cent of increased costs of welfare services after 1964-65 fiscal year.

Coverage: rehabilitation; casework; counselling, assessment and referral services; adoption; homemaker, daycare, and community development services; administration, consulting, and research services.

Part II

Indian Welfare

Special provisions to provinces which extend welfare programs covered in Part I or any part thereof to Indians registered under the Indian Act.

Part III

Work-activity projects

Eligibility: needs test; difficulty finding or holding a job.

Federal cost-sharing: 50 per cent of costs.

Coverage: approved projects designed to provide work-oriented experience.

Income Testing vs. Needs Testing

Since the basic allowance is adjusted for family size, there generally exists a "cross-over" point where welfare is more generous than is employment at the minimum wage. Basically the problem arises because the Canada Assistance Plan restricts payment to those persons in "need" or "likelihood of need" which in turn means that

provinces that desire to aid the working poor often find that such programs are not eligible for CAP cost sharing. Thus, Hum concludes that the CAP legislation should be revised to allow the use of "income testing" (which would incorporate some programs directed at the working poor) rather than "needs testing" (which generally excludes such programs).

In terms of how CAP might be altered so as to provide a combination of greater assistance and an enhanced incentive to work, Professor Hum cites recent initiatives of three provinces - Saskatchewan, Manitoba, and Quebec.

The Saskatchewan Family Income Plan (FIP) was the first such program. It was established in 1974 and provides monthly payments to families with dependent children - a maximum benefit of \$50 per month per child for the first three children and \$40 a month for each additional child. If after-tax income is less than \$6,200, the maximum benefit is payable. Payments are reduced by \$0.50 for every dollar of income above the limit for maximum benefits. Since cost-sharing under CAP is contingent on needs-testing, not all the expenditures under FIP are shareable.

The Quebec plan was established in 1979 and is called the Quebec Work Income Supplementation Plan. Applicants complete a special form with their provincial income tax returns and submit it to the Quebec Department of Revenue, which then determines eligibility and amount of benefits. The program assures that families and individuals are financially better off working than on welfare. Those earning less than or equal to what they would receive under social assistance can apply for an income supplement equal to 25 per cent of the earnings. Maximum benefits go to those earning incomes equal to the social assistance level. Benefits are reduced by one dollar for every three dollars of earnings above the social assistance level.

Manitoba established its income supplementation program in 1981. It is called the Manitoba Child Related Income Support Program. This program delivers cash supplements on the basis of income rather

than earnings and is not specific to the working poor, although it includes those working poor with children. The Manitoba program provides maximum benefits of \$30 a month per child. If total family income (including federal family allowances and child tax credits) adjusted by \$500 per child is less than \$7,500, the maximum benefit is payable. Benefits are reduced by \$0.25 for every dollar of income above the maximum.

The Quebec and Manitoba programs do not use needs tests; consequently, neither program is eligible for cost-sharing. In other words, the 'need' or 'likelihood of need' provision of the CAP Act has proved costly to those few provinces with income supplementation programs aimed at the working poor. The present CAP legislation is therefore a considerable obstacle to the development of provincial income maintenance programs for the working poor. Hum recommends that income testing replace need testing.

The Separation of Social Assistance and Social Services

A second and related problem with the CAP legislation, according to Professor Hum, is the incorporation of 'social assistance (income assistance) and Social Services' under the same legislative framework.

There would be definite advantages to a cost-sharing formula that treated them separately. The income assistance programs have a clear objective - the elimination of dire financial hardship - and confining eligibility to those 'in need or likelihood of need'.

Social services often have little to do with alleviating poverty; consequently, CAP's restrictions which limit access to services to those 'in need' are undesirable.

Income transfers differ from social services in several important respects. Income maintenance entails redistribution of income - that is, the transfer of rights over private goods. The income benefits transferred are homogeneous units; they can easily be aggregated to determine the total dollar amount involved in any program. What is more important, 'need' and 'basic need' can be defined precisely

for the purposes of such programs, and income-testing too can be fairly objective. The adequacy of 'basic support' level may be a matter of dispute, but there is no disputing the object of a specific transfer (namely, a dollar-unit command over private goods and services) or the purpose of the program as a whole (namely, the alleviation of poverty).

In contrast, social services comprise a mixture of heterogeneous public goods or in-kind transfers. It would be very difficult to determine a 'basic level' for a standard basket of 'basic services'. Moreover, a potential recipient's 'need' for any particular social service must often be determined through diagnostic testing by professional personnel, and to some extent such testing is necessarily subjective. The object of the transfer may in some cases be difficult to determine, and the goals of the social service itself may not be clear.

It is possible that CAP's failure to distinguish income assistance from social services has retarded program development under one or both headings.

Social work professionals have long argued that social services should receive independent standing and not be considered an adjunct to income security policy. Whether according separate identities to income assistance and social services would in fact encourage the independent development of either is impossible to predict; however, separation would undoubtedly result in a new interpretation of such phrases as 'in need or likelihood of need', one that would acknowledge the differences between income assistance and social services.

A New Cost-Sharing Formula

This study proposes:

1. That a new cost-sharing formula be established with a standardized basic allowance in mind.

2. That the federal cost-sharing rate be higher for poorer provinces.
3. That the federal cost-sharing rate be applied up to some predetermined provincial threshold.
4. That assistance expenditures by any province beyond the above-mentioned amount be cost-shared at some minimum or base federal cost-sharing rate.
5. The first step would be the negotiation of a national standard of basic income support and this would not preclude adjustments for differences in the cost of living from province to province.

Professor Hum adds that at a time when the very nature of Canadian federalism is being reconsidered, the matter of intergovernmental fiscal arrangements to reduce poverty and inequality should also be open to new thinking.

FOR FURTHER INFORMATION CONTACT:

David Conklin, Research Director and
Executive Secretary

(416) 965-4315

Derek Hum

(204) 474-8103

Federalism and the Poor: A Review of the Canada Assistance Plan,
111 pages, price \$4.50, is available at the following outlets:

The Ontario Government Bookstore, 880 Bay Street, Toronto, to those shopping in person. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). A cheque or money order, payable to the Treasurer of Ontario, must accompany all mail orders.

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